



Geometric Ltd.

Conference Call Transcript

January 15, 2008

Moderator: Good afternoon ladies and gentlemen. I am Rita, the moderator, for this conference. Welcome to the Geometric Q3FY08 results conference call hosted by Edelweiss Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for participants connected to International Bridge. After that, the question-and-answer session will be conducted for participants connected to India. I would now like to handover the floor to Mr. Kunal Sangoi from Edelweiss Securities. Thank you, and over to you, sir.

Kunal Sangoi: Thank you Rita, and good evening to you all. On behalf of Edelweiss, let me welcome you to the Q3FY08 post result conference call of Geometric. At the outset, we extend our appreciation to the management for giving us the opportunity to host this call. Today, we have with us Dr. Ravi Gopinath, Managing Director and CEO; Mr. G. Ravishankar, Chief Financial Officer; and Mr. Rajaramana Macha, Chief Operating Officer of the company. Without further ado, let me now handover the floor to Dr. Ravi for his opening remarks. Over to you sir.

Dr. Ravi Gopinath: Thank you Kunal. Good evening every one and thank you for joining us in this call. Before we move on to the question and answer session, as always, I would like to give a brief summary outlining the presentation that we have distributed, and there are 4 or 5 main areas that I would like to go through.

First of all, the increase in top line for Q3 was 2.4% in dollar terms, and this was along the lines we had expected because Q3, particularly the latter half of November and December, have typically been extremely slow months, particularly for our US engineering operations and indeed for offshore engineering center as well, as well as some of the large PLM contracts from the US markets that typically have to flow at this time. So, primarily the sluggishness in top line growth was due to the decline in the US engineering revenues to a certain extent due to holidays that are there, close to two weeks of downtime. A couple of contracts in the PLM space which we had won for which the closure got delayed and will happen in Q4. This was mitigated to a small

extent by an increase in products, but this is typically end of the calendar-year booking that you normally see in our desktop product business and that was also anticipated. Overall, while in percentage terms, revenue growth has been slow, it was in line with our expectations and how we had anticipated the revenue trajectory throughout the year. On a certainly positive note, as we have been reviewing our operations, one of the most encouraging signs as far as we are concerned is the increase in the operating profit margin of the consolidated operations of the company to 6.1% from 5.1% in the last quarter. There have been a couple of factors that have contributed to this. First of all, as I mentioned in the last quarter, we have continued to emphasize very strongly on delivery efficiencies and operating efficiencies, so the offshore project productivities have continued to be high and have contributed very positively to the operating profit. Also, offshore plus offsite volumes have gone up in terms of share of revenues, and that has contributed positively to the operating profits going up. The increase in the products business has certainly contributed to the bottom line, has helped the operating profit margin, but as I said, this is an end-of-calendar-year effect and typically not expected to repeat to this level in subsequent quarters due to the cyclicity of the products business. One of the things that we have been doing within the company is to, you know, very critically analyze if all of the measures of operating efficiency fundamentally aimed at bringing back the profitability of the consolidated operations of the company, if we are working in the right levers, and while, you know, all of us are aware of the headwind effects of the appreciating rupee, we are also benchmarking our operating matrix internally on an effect-neutral basis, vis-à-vis, the rupee rate at which we had budgeted for the year, which was at INR 43 to a dollar. When we did that analysis, what is encouraging to us in terms of the underlying fundamentals of the business was that on that basis, the operating profit margin was greater than 10% and showing a significant increase in absolute terms even over the last year's corresponding quarter. So, this means that the underlying performance measures are working, what is now required for us to do is to raise the volumes so then the multiplying effect can mitigate the impact of the appreciating rupee to a certain extent and drive our profitability.

One of the other factors that has certainly helped us, and we have talked about is in the last few quarters, has been the drag effect of erstwhile Modern Engineering, which is now renamed Geometric Engineering, Inc. and how that business has been performing. This quarter, we have continued our efforts to tighten those operations, and we have got very, very encouraging signs in terms of very definite and noticeable start to the turnaround of those operations. The US engineering operations returned a negative EBITDA but of 97K versus more than 470K in Q2, so that is a significant improvement in terms of EBITDA performance. Two or three things that we did to achieve that improvement; we did a very critical analysis of their operating and realization efficiencies, and there has been a workforce rationalization in the US aimed at achieving higher levels of utilization and effectively higher realization. As a result of this, the cost of revenues

overall also has remained flat, and we have driven down SG&A, particularly in the US operations, significantly. So, while the business on the top line has been slow because of the end-of-year effect and certainly the end-of-year holiday effect that we saw in our main markets in Detroit, the efficiency measures have now resulted in a much tighter operations, and so we enter Q4 with a much higher degree of optimism in terms of the US engineering operations coming out of the red zone as it was and at least breaking even at the EBITDA level. That is going to be our continuing endeavor.

Over this past quarter, there have also been some encouraging developments in terms of how we are pushing the markets in terms of offerings and success of those offerings. As we have reported, we did this on USD 9 million of closures of new business. We added 17 new customers in the quarter. Encouragingly, our Europe closures have gone up. This is good. It is important for us because it is also important for us to develop other regions in addition to the US. So, we are now starting to see a very healthy pipeline develop in our Europe operations, and it will continue to be our effort to grow that business. In terms of investments that we have done to create new capabilities and offerings, we have constantly looked at diversifying ourselves, not just in the traditional areas, we are looking at business applications of our PLM competencies. And to that end, Geometric has launched, I believe, what are truly differentiated offerings in the PLM space, one related to the fashion industry, the apparel PLM solution, and another related to the oil and gas segment and these are being actively pushed in the market. We have started seeing early success, and I believe it is first of many steps that we are taking to achieve a differentiated position, which is certainly in line with our overall strategy. We are diversifying not just in the vertical sense but even in the process sense. Our investment in creating the manufacturing IT practice has started bearing fruit. We have started winning our first engagements in the MES arena and particularly leveraging our capabilities to drive the integration between PLM and manufacturing systems, which in our view are strong upcoming and emerging technologies in the arena. The other part of our products business, which is the enterprise solutions of the interoperability business, we are seeing very healthy traction in several sectors, particularly in the aerospace and defense segments, where the complexity and heterogeneity of the existing applications is extremely high. So in all of these areas, the summary is that our investments, very conscious investments, in creating capabilities that will differentiate in the market have started bearing fruit. It has started showing in the quality of engagements we have been winning, in realizations of new engagements that we have been winning, coupled with the offshore productivity improvements that we are driving, and the tightening of the US engineering operations, certainly all of the turnaround levers, I can say, with a very high degree of confidence, have been worked to their full extent in this quarter.

Yes, we did suffer the slowdown effects of and even continuing appreciating rupee and the fact that our major market was rather slow particularly towards the end of the year. But I think we have made a good platform for Q4 and certainly a very strong platform to enter the next financial year for which we have started the planning process. As far as our product business goes, there has been an improvement in terms of the products revenues that we had, but in our view, very largely an end-of-year phenomenon, but we are now starting to see the early signs of traction, not just for our existing products but even the new product, the DFMPPro that we had launched, which we believe addresses a very critical business problem in terms of the integration between design and manufacturing. So, in summary, from your perspective as you would view our results, sluggish top line growth is explained by the fact that markets in which we primarily operate and where our businesses have a major exposure, it was certainly a phenomenon very particular to this quarter, anticipated to a very, very large extent. Operating profit improvements from our perspective is a very encouraging sign. It is a result of a conscious effort. It is a result of operating process improvements that we have driven in our India operations, and it is now getting deployed across our global operations.

Geometric Engineering, formerly Modern, had significant tightening of operations; that process will continue, and in my view, very importantly, the entire go-to-market effect coupled with all of the new offerings and capabilities that we are bringing to the table are starting to demonstrate results in terms of Geometric winning in areas that it had not won before.

So, that is the summary that I wanted to provide you. You certainly have the presentation, and I am sure that there would be several specific parameters on which you would have questions, so without taking much more of your time on this opening remark, I hand this over for the question and answer session. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to the international moderator to conduct the Q&A session for participants connected to the international bridge. After this, we will have a question-and-answer session for participants connected to India. Thank you and over to you.

International Moderator: Thank you, Rita. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. Please press 01 if you have a question. Rita, I have no questions for you from the participants connected at the international bridge. I would like to handover the proceedings back to you, Rita.

Moderator: Thank you. We will now begin the Q&A interactive session for participants connected to India. Participants who wish to ask questions, kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their question on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in-line, we have Mr. Dipen Shah from Kotak Securities. Over to you sir.

Dipen Shah: Yeah, this is Dipen from Kotak. I had a few questions on the results. First, if you have to start from the revenue front and from what I understand from your presentation is that, while there was a volume growth of about 8%, because of the lower number of billing days, you lost about 5.6% on revenues. Is it a correct understanding?

Dr. Ravi Gopinath: Yes, it is.

Dipen Shah: Okay. So that is one part. On the expenses side, I see that there were some wide variations on a quarter-on-quarter basis. First of all, the employee expenditure has gone down in absolute terms for the second successive quarter despite you adding employees. So, just wanted some clarification on that, and the second part was there was a big bump-up in traveling expenditure, but on the other hand the other expenditure came down significantly. So, maybe some comments on why such kind of variations quarter-on-quarter?

Dr. Ravi Gopinath: Okay. In terms of the manpower expenditure, when you are comparing Q2 to Q3 right.

Dipen Shah: Yeah.

Dr. Ravi Gopinath: As you said, as I told you the manpower has remained nearly flat, and one of the reasons is the rationalization that we have done in US operations. It is a high cost location and so we have achieved certain amount of rationalization there, and that has helped drive the effectiveness of the delivery force that we have. On the travel side, the increase primarily has been as a result of, if you look at the SGNA travel side, it has remained pretty much the same, but the travels that you are seeing in terms of the cost of revenue items, which is associated with travel from here at the early stage of engagements. So, this is where the solution architects and so on and so forth are traveling associated with the project kickoff.

Dipen Shah: See while we have traveled initially, the onsite revenues have not increased Q-on-Q and on the other hand if they are expected to happen, then can we assume that this is the normalized kind of traveling expenditure which will continue?

Dr. Ravi Gopinath: I am not sure what you mean by normalized?

Dipen Shah: Like, can we take this INR 7.5 crores as the base for a quarter going ahead or this will come down in the succeeding quarters?

Dr. Ravi Gopinath: I am just trying to see where you picked this. If you add the manpower plus the SGNA.

Dipen Shah: Yeah, the overall travel expenditure.

Dr. Ravi Gopinath: Yeah, so I would say that roughly you can assume that will remain at those levels.

Dipen Shah: Okay.

Dr. Ravi Gopinath: And again, let me just say that these consultants traveling onsite, typically because I said, these are the early stage engagements right. Two things happen. This will typically be the first stage of the project starting off, which are short-burst engagements or they will be going there and doing the transition to offshore. So you would see that the offshore volume has gone up as well as the offsite volumes which have been facilitated by this travel.

Dipen Shah: Okay. And a couple of other questions. Maybe I missed out on the first part. You said, the US employees, there was some rationalization. Can you give us some figures on that? Number of employees rationalized or what exactly has happened.

Dr. Ravi Gopinath: We are not, you know, for obvious reasons we are not letting out those details.

Dipen Shah: Okay. But is there any further rationalization expected or you are almost done with it.

Dr. Ravi Gopinath: I would say that we are done with a large part of it, but we are monitoring things very closely and wherever we feel, see again, this is not being done from the perspective

of achieving our target head-count reduction or whatever. Our measure is finally driving up the gross margin in the local operations. So the way we are driving the profitability when you look at Geometric Engineering and as you can see that it has achieved the result in terms of the EBITDA level improvement, a significant EBITDA level improvement, despite the top line shrinkages, we are looking at specifically all the projects and areas where we can drive up gross margins by rationalization either in terms of reduction of head count or wage reduction.

Dipen Shah: Okay. A couple of more questions. Sorry for taking so much time, but first of all, more on the macro front, we do deal with auto companies, and we are seeing that the scenario there is not very conducive, so specifically, the auto companies and more so from the US perspective, what is the initial indication which you are getting from your planned interactions and held up problems of the previous quarters persisted or now they are largely done away with?

Dr. Ravi Gopinath: I would not say they are largely done away with. I think the first quarter of this coming year is going to be a critical one as far as the US auto industry is concerned. There is a lot of clean up and cut downs that all of them are doing, and our own view in terms of our interaction with the customer plus our own people where we have been in that business for a long time, the view is that it is going to be a wait and watch situation for one more quarter. The industry remains positive in terms of the medium term outlook. And so, they believe that Detroit has always lived through cycles. It has been perennially the case, and so when you look at the analysis, it seems that we are nearing the bottom part of one of the cycles, and therefore, things should improve going forward.

Dipen Shah: Okay and lastly a couple of bookkeeping ones. First of all, what is the current debt position, debt and cash, and the other one is what can we expect the tax rates to be for the current year as well as the next year. Thank you very much.

Mr. G Ravishankar: Yeah, the cash position at the end of December quarter, as on December 31, 2007, is about INR 28.24 million. The loan from the book is about INR 760 million as against INR 850 million at the end of the previous quarter. In terms of tax rate, this quarter was in a higher tax rate and that is because of three reasons. One is on account of higher fringe benefit tax because of employees taking higher reimbursements, etc. Two, in terms of mix of the STP units which are under exemption and which are under non-exemption. Third is that since Modern losses have come down.

Dipen Shah: Okay.

Mr. G Ravishankar: There was a slight change and because of that tax rates went up, and the third reason is that Modern losses came down in this quarter against the previous quarter. Because of this, we did not have the deferred tax asset created in this quarter.

Dipen Shah: Okay.

Mr. G Ravishankar: Going forward, we expect tax rates to be at an average of about 15-16%.

Dipen Shah: Okay, we can assume 15-16% for the next year.

Mr. G Ravishankar: That is right.

Dipen Shah: Okay. Thank you very much and all the best.

Dr. Ravi Gopinath: Thank you.

Moderator: Thank you very much sir. Participants are requested to restrict themselves to one question at the initial round of Q&A. The follow up questions will be taken later on. Next in line, we have Mr. Joshi from Irevna. Over to you sir.

Mr. Joshi: Hi, good evening gentlemen.

Dr. Ravi Gopinath: Good evening.

Mr. Joshi: Just a couple of questions on Modern Engineering, which is now Geometric US. I just wanted to know what is the contribution to the top line by this segment and what is the off-shoring as a percentage?

Dr. Ravi Gopinath: Yeah, in terms of percentage of engineering business, the engineering business as you have seen in the presentation is 35% of the total revenue.

Mr. Joshi: Yeah.

Dr. Ravi Gopinath: Okay and the percent of off-shoring in terms of revenues is 5% of their revenues, is off-shore.

Mr. Joshi: 5% of engineering revenues ?

Dr. Ravi Gopinath: Of US engineering revenues.

Mr. Joshi: Okay. No, because last quarter it was around, I guess, close to about 8

Dr. Ravi Gopinath: It was 7.5%. The reason the off-shore revenues in terms of what is off-shored from Geometric Engineering, Inc. has come down.

Mr. Joshi: Yeah.

Dr. Ravi Gopinath: That the kind of work that Geometric Engineering can off-shore is very largely linked to their volume. Okay?

Mr. Joshi: Okay.

Dr. Ravi Gopinath: So, when they have more projects going on, when they have many concurrent projects going on, what happens is that, the part of the project that is off-shored typically is in the later half of the project cycle.

Mr. Joshi: Yeah.

Dr. Ravi Gopinath: It is where all the detailing work happens and then the detailing work can be done in different off-shore locations. Now, as I told you, as a volume because of the November-December effect, that their volume came down. Most of the projects that they were doing were in the early half of the cycle. So, whatever was in the later half detailing domain could be done. So, the amount of overflow activity that could actually be moved off-shore came down corresponding to the volume. So, what you are seeing as a reduction in percentage of revenue, their revenue which is off-shored, is the function of their top line reduction.

Mr. Joshi: Okay, so when do you expect Modern to get profitable?

Dr. Ravi Gopinath: As I said, our target is to get to breakeven at the EBITDA level by Q4.

Mr. Joshi: By Q4, okay, and one more question regarding the pricing environment. How do you see it panning out in case given that your medium-term scenario for the auto majors look pretty okay?

Dr. Ravi Gopinath: See the pricing scenario as I said, the way they are driving up realizations is in two parts. One is we look at bill rates and the other thing is we look at our effective realization through productivity improvement. So, when we look at our bill rates, ultimately what is going

to help us price at premium, and we have examined this successfully over the last two quarters actually, is the more we package our service offerings into well-defined industry-oriented offerings as I said, for example, an apparel offering or an offering that integrates PLM and the manufacturing systems. Those services packaged are very specific solutions, allow us to command a premium in terms of billing. So, today, if you look at the percentage of our, lets say, service offering which fall under the high premium set in terms of volume, if I were to give you a rough estimate, it would be probably less than 5% which is really premium positionable today, but this 5% is that much more than it was even say 6 to 8 months ago, and these are now things that we have created, and they are creating a premium positioning in the market. So, what we are doing is, we are increasing the quantum of our offerings that can be up sold as it were and give us higher billing rates.

On the flip side, when we start delivering it, we are looking at every project that we do, how do we ensure that in a fixed price project, we are able to turn around the delivery in a shorter period of time or use a smaller number of resources and yet without compromising delivery schedules and quality, deliver the same results. So, a lot of the offshore improvements in terms of delivery that I talked about have been achieved as a result of that. So, I believe that while there will continue to be pricing pressures as a result of market environment, we have levers which will enable us to balance those pressures out at least in the medium-term.

Mr. Joshi: Okay, now to put it in a nutshell sir, can we assume that your clients are ready for a price hike given your value proposition right now or going forward?

Dr. Ravi Gopinath: Yeah, wherever we are articulating their value proposition really, yes.

Mr. Joshi: Okay. Yeah, just one minor clarification. Your Q2, I mean in the previous quarter, Modern Engineering revenues were about USD 8.8 million.

Dr. Ravi Gopinath: Yeah.

Mr. Joshi: And could you specify how much were this time. There were some disturbances when you talked the last time.

Dr. Ravi Gopinath: I did not specify that, but it reduced by around 70K over that.

Mr. Joshi: Okay. Yeah, that is about it. Thanks a lot.

Dr. Ravi Gopinath: Sure.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsan from Spark Capital. Over to you sir.

Mr. Srivatsan: Yeah, hi. My question relates to overall sales. If I remember, a couple of calls back, you were talking about improving the sales team. Taking it to a sales team of about 15 by July. What is the update on that front? From my understanding you are doing about a run rate of about USD 30 million per quarter with a sales team of 15, which is very less when compared to industry average as in like number of sales persons we are having is very less for a top 10, and what is our development on this stage, and what is the overall plan ?

Dr. Ravi Gopinath: Yeah, our total sales team is 21 right now. So, we have added sales people in the US. We have added sales people in Europe as well as in Japan, and these are the three markets where we are aggressively pushing our offerings. We will continue to add probably another two people in the global sales team before the end of this fiscal. In January, we are getting together for our global sales planning meet assessing critically how to even allocate the activities of our sales team, and when I say sales team we are looking at them operating in two categories. There is a sales person who goes out and hunts for brand new revenue and there are people who are dedicated to either one account or a cluster of accounts and who basically go in and mine those accounts for as many cross selling opportunities as possible.

Mr. Srivatsan: More like farming?

Dr. Ravi Gopinath: More like farming. So, we are going to actually now do a very scientific breakdown by individuals in terms of whether we are allocating them to a farming activity or a hunting activity.

Mr. Srivatsan: Okay.

Dr. Ravi Gopinath: So, earlier you are right, we did not have the critical mass to do anything in a planned sales activity. We have now created that critical mass. Over the last quarter, a lot of the driving that we have been doing has been associated with channeling that effort more effectively. In Q4, certainly we are taking that up one level.

Mr. Srivatsan: Okay, my next question relates to overall adoption of PLM as this is much more robust in more developing economies as in India and China wherein like PLM is being adopted to engineering and autos and other things, these becoming export hubs. What sort of

concentration are you having on these countries, as like India, China, Brazil, which are expected to become more export oriented units for manufacturing in general.

Dr. Ravi Gopinath: Yeah, see as I said, China we have now started seeing, we are in very advanced stages on at least three significant PLM deals in China.

Mr. Srivatsan: Okay.

Dr. Ravi Gopinath: I am not sure what the closure time on that is, but is certainly very encouraging. This is both multinationals as well as local large Chinese companies. So, it certainly addresses the business dynamics that you talked about. As far as India is concerned, I must confess, I am not entirely happy with the results we have seen so far. Perhaps, we have not put in a strong enough effort into developing the India market, but that is certainly something that is a gap at our end. I agree with you that India is a phenomenal market opportunity, particularly in PLM, and I think we have got tremendous amount of value that we can bring to Indian companies in terms of working with them to adopt best-in-class PLM strategies, processes, and technologies which will truly differentiate them on a global basis. So, that is certainly going to be one very hard question that I will be addressing at our global sales meet in a few days from now. But a short answer to your question, China, the process has started; India, the need is clearly identified and initial planning is in process. We have not yet put together a plan for Latin America, but that is something that I would like to address once we have got our hands around India and China.

Mr. Srivatsan: Sir, thank you. I will come again later.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep Shah from ICICI Securities. Over to you sir.

Sandeep Shah: Yes sir. Sir, just looking within the services revenue, if you exclude the product revenues, the growth seems to be largely driven through software products which I believe is the PLM OEM products or the R&D which we do for them, and in the last two to three quarter we are consistently winning the new orders in tune of 5 to 10 million with a higher billing rate. So, one is whether these new orders have been started executing. If yes, then why the margins are not improving?

Dr. Ravi Gopinath: Sandeep, I did not hear the last Could you just repeat the last part of your question?

Sandeep Shah: Yeah, so what I am trying to say is whether the new deals which we have won over the last three quarters ranging from 5 million to the 10 million per quarter, whether these new deals have started executing, whether the revenues reflect these new deals, and if yes, then why the margins are not moving up?

Dr. Ravi Gopinath: See there are two effects, one is these deals have started executing. As I said, what we are doing is as we close deals, typically what happens is, one quarter perhaps a little more than a quarter for the ramp up to start in terms of the teams mobilizing. So, that is one. Second thing is recognize also that the margin also get impacted because a lot of these deals that we have won, we are executing especially in the PLM arena in a very off-shore centric manner. So, the exchange rate effects do have a very, very strong role to play as far as that is concerned. Now, that is a growing thing, we are expecting, and we have already started to see some of effects of that new revenue in terms of contribution to the bottom line. It will increase as we go forward. To your question, in terms of the improvement in revenue from the software product companies, yes, in this quarter we have certainly seen an improvement from software product companies for which we are doing, but I would like to point out that even there the kind of project that we have now starting to execute, we are taking greater ownership of defining and executing on specific modules and functionalities and sometimes even entire industry specific solutions that we are starting to work on. So, the classification of the business in terms of software products versus partners versus industrials, while it is certainly a desire to maximize our exposure in the direct industrial segment, the software product work that we do has a very strong positive bearing even in terms of the PLM offerings that we are taking up to the market. So, again, a short answer to you question, early signs are there. You will see a continuing improving effect on profitability. I keep my fingers crossed on the rupee rate.

Sandeep Shah: Sir, but if you remember like in the earlier quarters, you were indicating that new deals are coming at a significantly higher rate than our historic average, and this quarter, yes the margins have improved by 100 basis point, but it seems that it is largely through loss reduction in Modern Engineering?

Dr. Ravi Gopinath: No, in the P&L statement you will see an improvement; forget the operating profit which is including SGNA reductions and all that.

Sandeep Shah: Right.

Dr. Ravi Gopinath: Okay. You look at the contribution margin, there is an improvement. So, if you take 1.2% increase in rupee terms in operating revenue, this 4.8% improvement is in contribution.

Sandeep Shah: Right, right, but even the gross margin is largely driven through Modern or

Dr. Ravi Gopinath: No.

Sandeep Shah: Okay, so it is coming through SG&A ?

Dr. Ravi Gopinath: Exactly, it is not SG&A. Yes you are right, Modern COR has been kept constant.

Sandeep Shah: Okay.

Dr. Ravi Gopinath: But if you were to analyze Geometric Engineering, there has been a mild flattening in revenue and corresponding COR reduction, a significant SGNA reduction. Okay, so that has been a controlling phenomenon. The improvement phenomenon has been as a result of all those deals that have been coming in that I talked about. We did if you look at the P&L statement, 1.2% improvement in rupee terms in operating revenue, 4.8% improvement in terms of contribution.

Sandeep Shah: Alright.

Dr. Ravi Gopinath: And that is a measure of, you know, improved profitability.

Sandeep Shah: Yeah, because why I was asking this is because the quantum increase in terms of the average billing rates which we were earlier talking about were much higher than our average billing rate used to be. So, I was thinking when these projects come into picture, and then there could be a significant improvement in the profitability should be coming?

Dr. Ravi Gopinath: Yes, but also, Sandeep my request, what I will say once again, I remember we had discussed this once in the last call and a call before that also.

Sandeep Shah: Right.

Dr. Ravi Gopinath: You know, it is certainly our strong hope that as soon as we close we can ramp up immediately, and we can start all the positive impact of the new revenue start showing up immediately.

Sandeep Shah: Right.

Dr. Ravi Gopinath: Typically, what we have seen is that we close the contract. It represents an order that can get executed over the next, I would say, on an average over the next 1 year. Sometimes, it is 6 months, sometimes it is a year and a half. Normally, the solution definition piece in these kind of projects and programmes last anywhere from 2 to 4 months, and what happens is these stages correlate with what the gentleman had asked earlier in terms of the travel cost, the far related travel cost going up.

Sandeep Shah: Right.

Dr. Ravi Gopinath: Well that is happening because the consultants are going out there. The contract has been closed, consultants are going there, scoping out work content definition with customers. They are working out what are the knowledge transition elements. We start doing the training parts of it. We start creating the teams to deliver all those projects. So, there is a certain phasing that it takes, but all I would say is that what you are seeing in terms of the contribution improvement is a clear result of that process. Now, would we have liked it to be faster? No doubt about that, but certainly the trend is in the right direction. What we are also seeing as a result of the, I would say, the sluggishness in terms of growth, while there has been a distinct improvement in terms of the contribution, what has actually made it a little more sluggish has been the holiday effect.

Sandeep Shah: Right.

Dr. Ravi Gopinath: So, if that holiday effect was not there, then you would have actually seen a much more positive contribution margin improvement.

Sandeep Shah: Right, so sir, here in the earlier remarks, you said that the volume growth of 8% and actual volume growth of 8%, but lost the billing of 5.6% because of the holidays?

Dr. Ravi Gopinath: Yes.

Sandeep Shah: So, that means that here the work has been executed, so billing may happen in the fourth quarter plus the normalized growth of the fourth quarter, so there is a chance that the volume growth could be double digit in the fourth quarter.

Mr. Rajaramana: No, no, what you have looked at is that

Dr. Ravi Gopinath: Hey Sandeep, the person answering is Rajaramana, our COO.

Sandeep Shah: Yeah.

Mr. Rajaramana: See, what we have is that a certain level of business should have happened in Q3 if all the working days were available.

Sandeep Shah: Right.

Mr. Rajaramana: It did not happen. The large portion of those contracts will continue in Q4. So, the business in Q4 for those contracts will be higher.

Sandeep Shah: Okay, so that is what I am saying. So, in that sense the volume growth may be significantly higher in the fourth quarter.

Mr. Rajaramana: The volume growth for these contracts will be higher to the extent of the billing days that will be available.

Sandeep Shah: Okay, okay, and sir, this is just a bookkeeping question. This quarter we have given even a matrix for the third quarter FY07, but that matrix if we compare with the matrix we have given with first quarter of this year result, it is significantly different. So, just wanted to understand what has happened there?

Dr. Ravi Gopinath: Which table are you referring Sandeep?

Sandeep Shah: Just on everything like right from the breakup of services revenue, revenue mix in terms of offshore, so everything related to third quarter FY07 seems changed, if we compared with the matrix we have given with Q1 of FY08 results.

Dr. Ravi Gopinath: Q1 of FY08 will not have Q3 right?

Mr. Sandeep: Sorry, in the Q1 means for the Q4 results, sorry. What I mean to say is in Q1, we have announced Q4 results, so for the Q4 results, the matrix we have given for Q3.

Dr. Ravi Gopinath: Okay, I can check that and revert back to you.

Mr. Sandeep: Yeah, that is fine.

Dr. Ravi Gopinath: If there are discrepancies, Sandeep, we will certainly put out a note as to what goes out, okay?

Mr. Sandeep: No, that is fine.

Dr. Ravi Gopinath: Thank you for bringing it up.

Mr. Sandeep: Thanks, all the best.

Moderator: Thank you very much sir. Next in line, we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Hi, good afternoon. Just wanted to understand from you what is your outlook for Modern per se considering whatever issues that we are seeing right now in the US and particularly for me you know most of the Detroit auto companies don't seem to be very spectacular future going forward, so how do we plan to sort of grow the business and also for the efforts to go more into non-automotive side if you can also elaborate a bit more.

Dr. Ravi Gopinath: Yeah, so couple of things. You are right. The Detroit automotive sector certainly will continue to have challenges. There are two things, as I said, because of the increased integration in operations between the US and the other parts of the world, India, Romania, and China, what we are doing is ensuring, looking at not just in terms of the, you know, the lower end stuff but increasingly at the project level activity. We have just executed a couple of pilots in the last quarter to prove this hypothesis because if the top-line situation does not dramatically improve in the automotive side, you know, worst case scenario, what should be, you know, our rationalized strength if you will, and we certainly want to ensure that we maintain all the critical mass of competencies for which we acquired the company. So, I think, that part is extremely critical. We very strongly value the competencies that Geometric Engineering has, and we want to ensure that to the extent possible we are able to maintain those competencies and announce them. At the same time, we want to change the quality of the work that is done there, and move as much of the low end stuff to the other global

locations. So, that process has happened, that rationalization has already happened as I told you in Q3. We will closely look at the top line from the automotive industry and see if we need to make additional changes. As far as diversifying that business into new areas, that process has already started. We were already present in the industrial domain. We have started winning new contracts there. We entered the marine segment where we have started winning contracts. We have had initial breakthroughs into the oil and gas upstream segment, so we have now started the process of diversifying and leveraging those horizontal skill sets into additional domains. Having said that, let me also say, there is a little caution here, that to take a competency profile that is so strongly associated with the automotive business, technically it is possible for the same engineers to do a ship building project or design an oil rig and so on and so forth, but ultimately those customers have to have the confidence that we will be able to service other industries equally effectively. So, competency is while it is theoretically possible, and that those successes have already started, we need to be very clear that the sales cycle in diversifying out of the automotive sector is not going to be a short one. It is going to take a period of time, but we are conscious that it needs to be done, and that diversification effort is very clearly on.

Ruchit Mehta: Okay, just also on that volume part of the story that you mentioned, about 8% volume growth during the quarter, I am still not getting clear, would that mean that Q4 would be an unusually higher than average growth rate for the company ?

Dr. Ravi Gopinath: No, I would not conclude that.

Ruchit Mehta: Okay, and secondly, on your profitability aspect, you know, early we were expecting that there would be some decent amount of, you know, top-line growth and then the PAT level including other income and everything we would have grown decently as well, but considering whatever has happened up till now in the 9 months, do you think that you know year-on-year basis we might just end up flat in terms of profit after tax.

Dr. Ravi Gopinath: As I said, we are not commenting right now at the end of year scenario. I specifically mentioned that in the last quarter's call. So, we don't want to make a comment in terms of what the end of year would look like, and I had also mentioned last time it is while certain factors, you know, particularly external factors have created those headwinds for us. There is no shortfall in the effort that is being undertaken within the organization to mitigate those factors. So, at this point in time, I would not like to comment in terms of whether it is going to be flat or whether we are going to see an improvement over the last year.

Ruchit Mehta: Okay, and just finally on your overall business in terms of the non-engineering side, the services side and the software side, in terms of the going solo go-to-market strategy, do you see some additional challenges considering whatever you know lot of your customers are going through some tough cycles or tough times, do you think that is only just adding to your challenges at the moment?

Dr. Ravi Gopinath: You know, it is a very good question because there is a trade-off, and the trade-off is, every time we are going direct we are getting much better business in terms of realization, but coupled with that is the fact that you know the cycles, the sales cycles and even the post sales ramp up cycles on these projects typically tend to be longer, but I believe that it is in the long-term interest of the company and creating the right portfolio for the organization that we must continue with this. We could essentially, you know, continue, if we were to look at a pure business partner, as we essentially operated under a little over a year ago, there were short-term advantages, but it could also lead to tremendous supply chain link fluctuations because of lack of visibility to end-customer requirement. Today, that is phenomenal. We have got a very good visibility into what our end-customers are looking for. It is helping us plan our competencies and inventories and capacity much, much better, and all of that is really contributing to the fundamentals of the business improving, and they truly are. I wish that some of the external effects, you know, had not been as pronounced as they are, but that is a reality that we are living with, and I am sure that we will continue.

Ruchit Mehta: Okay, and just final question, any change to your capex plan for this year?

Mr. G Ravishankar: No. It is continuing under same plan that we have set forth for the year.

Ruchit Mehta: Roughly about 50 odd crores?

Mr. G Ravishankar: Correct.

Ruchit Mehta: Okay, thank you very much.

Mr. G Ravishankar: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Janaki Krishnan from Reuters.

Janaki Krishnan: Hi. I just wanted to ask, in your engineering services, how much does the auto sector contribute in terms of revenues?

Dr. Ravi Gopinath: Just one second, I will give you. It will be around 70% to 72%.

Janaki Krishnan: 70% to 72%. Sir, do you see that remaining the same as you go into maybe the manufacturing sector or something like that if you are successful and diversifying. Do you see that component coming down?

Dr. Ravi Gopinath: Certainly, you know, as part of all of our de-risking, I mean, whether it is US market de-risking, whether it is automotive de-risking, that process continues. It is certainly part of our goal set for all of our managers to reduce their exposure to the automotive sector. To be honest, I don't think you will see a marked reduction in Q4, but I would also say when you do a longer term consolidation and you analyze one longer term periods versus another, then you will see a distinct change as you go from this year into next year. So, certainly, it is part of our strategy and actions associated with that, it gives that dependence, but I don't think you will see a very significant reduction in the next quarter, but your question also it leads me to ensuring that in terms of how we show some of our performance analysis, certainly include an industry vertical exposure as part of our plans for that.

Janaki Krishnan: Another thing if you look at your net profit, I mean, it has not only on a sequential quarter basis but also on year-to-year basis, it has fallen quite a bit on standalone as well as consolidated, not all of it can be explained. Assuming that last year also the holiday effect would have been there, and this year also the holiday effect would have been there. Most of it would have been due to the slowing down in the automobile segment in the US.

Dr. Ravi Gopinath: And rupee appreciated by about 12%.

Janaki Krishnan: 12%, yes, so how much was the impact due to the rupee appreciation and how much actually due to the slowdown in the automotive sector?

Dr. Ravi Gopinath: If you see at the operating profit level, in Q3 of 07, we had about 9% of margin, right?

Janaki Krishnan: Yeah.

Dr. Ravi Gopinath: On a rupee-adjusted basis, at least for the current year, we should be around about 10% plus.

Janaki Krishnan: Okay, yeah.

Dr. Ravi Gopinath: So which means we would have been better as compared to the previous year, on a Y-o-Y basis.

Janaki Krishnan: Okay fair enough. So, assuming that the rupee is still as everyone says, is still going to appreciate or even remaining at the current levels at the marginal appreciation, and assuming that the automotive sector is not immediately going to improve, it may take some time do you see your margins being under pressure?

Dr. Ravi Gopinath: Yeah, see, let me just also say that 70% to 72% of our engineering revenues are from the automotive sector.

Janaki Krishnan: Yeah.

Dr. Ravi Gopinath: Overall, for Geometric, as a company, 30% of our revenues are from the automotive sector.

Janaki Krishnan: Automotive, okay.

Dr. Ravi Gopinath: Right. So, while 30% is significant, recognize that while the engineering business, particularly the US engineering business in Detroit, suppose to be Detroit effect as you will, the PLM business, the software product development business, don't suffer those effects as much. What those businesses are really getting impacted by as Ravishankar said earlier was really the pressure of the appreciating rupee.

Janaki Krishnan: Appreciating rupee, right, okay, thanks very much, bye.

Moderator: Thank you very much ma'am. Participants are requested to restrict to only one question at the initial round of Q&A. Next in line, we have Ms. Sheriff from Quantum Mutual Fund. Over to you ma'am.

Ms. Sheriff: Thank you. I have 2 questions. One, although the previous lady just mentioned it, you have talked about margins getting impacted if external environment improves, things could be better. Hypothetically speaking, if the rupee does continue to appreciate, and everything else remaining same, do you have any additional levers if you will within the operating structure to manage your margins or would you then take a direct hit?

Dr. Ravi Gopinath: No, see there are 2 or 3 things that will happen. Our gross margin in the US operations, so let us take business by business. The gross margins in the US operations are going up, okay, as a result of improvements in rationalization and improvements that we are doing there. So, those fundamental operating margins have started to improve, coupled with the SG&A effect, it has had a measurable impact on the EBITDA. Now, going forward, if you look at the next 2 or 3 quarters, assuming that the rupee does continue to minimally appreciate, that part of the business which is around I would say 25% to 30% of our overall, is not going to be impacted by the rupee effect, so to that extent our overseas operations, particularly Geometric Engineering, Inc., its local operations are insulated from the rupee effect. As far as the off-shore centric businesses are concerned, one of the levers that we are actively pushing is in terms of how we are driving productivity, and so, just to give you a sense we have targeted within all of our offshore operations, particularly related to the software business to ensure that our contribution margins and gross margins are going up into the 45% to 50% range. Now, that is getting pushed up consistently quarter-by-quarter over the last 3 quarters as we have measured it, and that has had a positive impact, even if you look at the contribution margin, Q2 to Q3 improvement that we have reported in this quarter. So, it is going to provide a certain amount of leverage to guard us against rupee appreciation. As I said, it entirely depends in terms of you know how much the appreciation is. From Q4 of last year to Q1 of this year, we got really badly hit because of sudden spike in the rupee. As long as things like that don't continue, I think we will be able to avoid major discontinuities and continue the positive trend that we have been showing.

Ms. Sheriff: Okay, and the other question is on the front of the 3D PLM joint venture. Could you just give us a sense of what the volume growth has been like over there on a year-on-year basis without getting in the quarterly numbers?

Dr. Ravi Gopinath: 3DPLM will be growing around 5-10% on an annual basis.

Ms. Sheriff: Right.

Dr. Ravi Gopinath: On an annual basis, around 5-10%, because it is based on a well-defined R&D budget of our target company resource system, and it depends in terms of how they are planning their R&D activity, but 3DPLM has always done a stellar job. We are not looking at 3DPLM to give tremendous amount of volume growth but really maintain and improve the quality and quantum of the work that it does.

Ms. Sheriff: Just sir then the margins, I believe, in the 3DPLM have come down even on a Y-o-Y basis, and you do have, some amount of relief the way the billing is done, I believe, is cost plus, I mean, it is supposed to be a margin neutral kind of situation. So, why has that happened?

Dr. Ravi Gopinath: Okay, so first of all ma'am we typically don't analyze 3DPLM. We are happy to address questions in terms of broad parameters, how the volume is going, but we are not analyzing outwardly the margin components of 3DPLM at this point.

Ms. Sheriff: Okay, fair enough, and like you said that the 3DPLM growth is driven by an R&D budget and therefore would remain relatively stable. Would that be the case with the rest of your software development projects as well going forward or it is not fair to extrapolate that logic?

Dr. Ravi Gopinath: I would not say it is fair to extrapolate because the 3DPLM is fairly large, the others are not as large, and therefore, there is definitely growth opportunity, but the size of the company also varies, and we are working for companies that are billions of dollars in size, we are working companies that are, let us say, 100 million dollars in revenue, so the scale varies very significantly in the SG&A segment.

Ms. Sheriff: Okay, fair enough, thank you so much.

Moderator: Thank you very much ma'am. Next is a follow up question from Mr. Joshi from Irevna. Over to you sir.

Mr. Joshi: Hi, good evening gentlemen, just a couple of follow up questions. You indicated on your higher closure rates in Europe and you have already 17 new clients this quarter, could you tell us how many of these new clients have come from Europe?

Dr. Ravi Gopinath: Out of the 17 new clients, 5 of these.

Mr. Joshi: Five of them are from Europe. Okay. Could you split your margins on pricing, the offshore mix, currency impact, etc, as to how they have impacted your margins ?

Mr. G. Ravishankar : See, for this quarter, the currency appreciated by about 1% to 1.5% approximately. That turned out to be about 40 to 50 basis points impact on our margins, and the balance you see is a combination of the offshore on-site mix and the productivity increase that we are seeing, and of course, with the new volumes that we have been getting, and if you see

the 4.8% sequential increase in the contribution margin as the overall volume, due to the addition of the new businesses that we are seeing in the past couple of quarters plus the productivity improvements here.

Mr. Joshi: Okay, yeah, fair enough, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsan from Spark Capital. Over to you sir.

Mr. Srivatsan: Yeah, my question is related to the overall PLM, sort of relationship that we have with some of the largest PLM software vendors like Dassault, UGS, and other things, do you have any strategic tie-up or any implementation tie-up you have with any of these larger players in PLM ?

Dr. Ravi Gopinath: Yeah, we do, and we have had them for a long time.

Mr. Srivatsan: Is it possible to name them ?

Dr. Ravi Gopinath: With all the major PLM players. We have implementation partnership with every one of them.

Mr. Srivatsan: Every one, and then, in terms of the new verticals that we are looking at from engineering solutions point of view, predominantly if I am correct, what was repeated earlier that is happening like you are looking mainly outside or you are looking mainly in the areas of oil and gas, marine, and industrials.

Dr. Ravi Gopinath: Yes.

Mr. Srivatsan: You are not looking much in the aerospace or the railroads and other related things.

Dr. Ravi Gopinath: We are looking at that, there is certain amount of work we are doing in the railroads. I need to be very clear that saying that we are going after a certain industry, automatically presupposes that we have got well-defined offering for that industry. We adopt a very, very critical measure for ourselves in terms of, if we have to say we are strong in the vertical sector, we have to have well-defined solutions to business problems in that sector. Otherwise, what we are doing is we are taking up the skill sets and executing the project for the customer in a certain vertical. Now, that becomes you know how we add up revenues. So, we are going in that sense, we are looking at engineering opportunities in much more than these verticals, but I would say that in the marine arena, in the industrial arena, in the oil and gas

arena, we have actually constructed specific solutions, not enough to say that we are experts in those domains, but related to our engineering competencies and technology competencies, we have constructed some solutions, and we are pushing them to market.

Mr. Srivatsan: Okay, thank you very much.

Moderator: Thank you very much sir. Participants who wish to ask questions kindly press *1 on your telephone keypad. Next in line, we have Mr. Anoop Upadhyay from SBI Mutual Fund. Over to you sir.

Anoop Upadhyay: Sir, you said that Detroit has always been cyclical, and currently, we are nearing the bottom of the current cycle. Sir, I would like to understand what is the reason for the cyclicity and which specific indicators prove us that we are nearing the bottom of the current cycle?

Dr. Ravi Gopinath: yeah, I will just question over to our COO who is, you know, automotive industry expert, and let me allow the expert to answer that question.

Mr. Rajaramana: The traditional automotive industry both in Detroit as well as elsewhere has gone through cycles which are varying between 3 to 4 years, and that is constant, I mean, looking at history of automotive industry both in Detroit, in India, as well as in Europe, these cycles have been there. Say, if you look at the way Detroit has operated over the last 3 years, while it has been going down, and there are certainly lot of changes in the industrial structure - Detroit, for example, Daimler Chrysler, you know, is separating, now just Chrysler Corporation, and we have seen the fair amount of changes that have happened right now in Detroit; all point towards, you know, increase in the revenue base for us as well as for Detroit based operations. So, as that happens, we will see an uptrend. So, today, we have significant reasons to believe in the cyclicity of the automotive industry that has been the historical trend to foresee that possibly at this point of time the next step will be upward.

Mr. Srivatsan: 30% of the consolidated revenues from automotive vertical, what is the breakup of the rest of the 70% of the revenue in terms of verticals?

Dr. Ravi Gopinath: Okay, let me read this out to you. 53% is from software OEMs, 8.5% is from agri and construction equipment, 4% is from industrial and marine engineering, and others such as oil and gas, hi-tech, aerospace, so on and so forth are 12%.

Mr. Srivatsan: Okay, thank you sir.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings back to Mr. Kunal Sangoi for the final remarks. Over to you sir.

Kunal Sangoi: Yeah. Thank you all for participating in the call. I will now handover the floor to Dr. Ravi for his final remarks.

Dr. Ravi Gopinath: Thank you Kunal, once again. Thank you all for your continued participation in this call. It is certainly good to see many of you coming back and refreshing the questions that you asked for the last quarter because I think it is important for both us as well as you to ensure that we are consistently tracking some of the parameters that we mentioned, so your questions and continued analysis certainly add a lot of value into our process, and thanks for that.

Let me just summarize by saying that certainly I talked about it at the beginning of the call, that I would also like to reiterate that we are now in the final stages of the turnaround process that we started a while ago. It has been a, I would say, complicated process because we have had to fundamentally change the nature of the native business of Geometric in terms of how we were focused, the offerings that we were creating, our go-to-market process, our delivery mechanisms, all of which have come together. It has started generating results, and what we now need to ensure that those results and those improvements get magnified, is to ensure that there is the top line expansion for which we have, as I mentioned in response to a gentleman earlier, even over the last quarter, we have started improving our sales capacity. We are going to rationalize the effort of the sales force in terms of the kinds of activities that they are doing. So, that is on one dimension in terms of that turnaround. The second part of the turnaround for us obviously was the very significant challenges that we had in driving up the profitability or maybe it is a handling the drag of erstwhile Modern Engineering in terms of the bottom line. We were clear from day 1 that company brought to us a phenomenal set of competencies and experiences. We had to tide over the short-term challenges of the profitability issues that they were facing, and I am glad to say there is a management team there and a management team here, has worked together very effectively, taken a lot of hard decisions, and the results you see in terms of the EBITDA improvement while negative, certainly a whole sea change better than it was last quarter, and which I am confident will continue going forward has been as a result of that effect. There have been external factors. Certainly, there is no need to overstate what the rupee has done to all of us, but it is a real effect. What I am urging my management team to do is to ensure that we don't lose sight of the fundamentals that we are focusing on, improving our processes, improving our competencies and offerings, improving our go-to-market process, and

keeping track of operating metrics at all times. If we continue to do these 4 things and do them well, I am confident that whatever be the external macro economic factor, Geometric will develop the sales, and we are certainly, as I said, in the beginning of the summary, towards the end of that turnaround process. Certainly, we are looking forward to Q4 being again a noticeable step in that direction, and I look forward to seeing all of you again at our quarter end call in Q4. Thank you very much.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines.